

**KEYSTONE AREA EDUCATION
AGENCY 1**

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

June 30, 2008

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KEYSTONE AREA EDUCATION AGENCY 1

OFFICIALS

<i>NAME</i>	<i>TITLE</i>	<i>TERM EXPIRES</i>
Board of Directors		
Walter Pregler	President	2008
Gary Gassett	Vice President	2009
Francis Peterson	Member	2010
Merle Gaber	Member	2009
Robert Brown	Member	2008
John Ganshirt	Member	2010
Norman Miller	Member	2008
Bill Withers	Member	2010
John Perrenoud	Member	2009
Agency		
Robert Vittengl	Administrator	
Bob Shaw	Director of Administrative Services	
Candace Brockmeyer	Board Secretary	
Audie Baumgartner	Business Manager	Indefinite
	Treasurer	



SCHNURR & COMPANY, LLP
Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Keystone Area Education Agency 1
Elkader, Iowa

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Keystone Area Education Agency 1 as of and for the year ended June 30, 2008, which collectively comprise the Agency's basic financial statements listed in the table of contents. These financial statements are the responsibility of Agency officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U. S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Keystone Area Education Agency 1 at June 30, 2008, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U. S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated November 7, 2008, on our consideration of Keystone Area Education Agency 1's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 10 and 26 through 27 are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Keystone Area Education Agency 1's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2007 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4, including the Schedule of Expenditures of Federal Awards required by U. S. Office of Management and Budget (OMB) Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Schnarr & Company, LLP

Fort Dodge, Iowa
November 7, 2008

KEYSTONE AREA EDUCATION AGENCY 1

MANAGEMENT'S DISCUSSION AND ANALYSIS

Keystone Area Education Agency 1 provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2008. We encourage readers to consider this information in conjunction with the Agency's financial statements which follow.

2008 FINANCIAL HIGHLIGHTS

General Fund revenues in 2008 (FY08) were \$22,022,381 while General Fund expenditures for FY08 were \$21,305,544. Financing uses for FY08 were \$409,560. This resulted in an increase in the Agency's General Fund balance from \$1,577,595 in FY07 to \$1,884,872 in FY08, a 19% increase from the prior year.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the agency's financial activities.
- The Government-wide Financial Statements consist of a statement of net assets and a statement of activities. These provide information about the activities of Keystone Area Education Agency as a whole and present an overall view of the Agency's finances.
- The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the Agency's operations in more detail than the government-wide statements by providing information about the most significant funds.
- Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
- Required Supplementary Information further explains and supports the financial statements with a comparison of the Agency's budget for the year, and Supplementary Information provides detailed information about the non-major funds.

MANAGEMENT'S DISCUSSION AND ANALYSIS

USING THIS ANNUAL REPORT (Continued)

Reporting the Agency as a Whole

Government-wide Financial Statements

The Government-wide statements report information about the Agency as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Agency's assets and liabilities. All of the current year revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Government-wide statements report the Agency's net assets and how they have changed. Net assets — the difference between the agency's assets and liabilities — are one way to measure the Agency's financial health or position.

- Over time, increases or decreases in the Agency's net assets are an indicator of whether financial position is improving or deteriorating, respectively.
- To assess the Agency's overall health, additional non-financial factors, such as changes in the Agency's property tax base and the condition of its facilities, need to be considered.

In the Government-wide financial statements, the Agency's activities consist of one category:

- *Governmental activities:* Most of the Agency's basic services are included here, such as regular and special education instruction, student and instructional staff support services, and administration. Local school districts, federal and state aid finance most of these activities.

Fund Financial Statements

The fund financial statements provide detailed information about the Agency's funds, focusing on its most significant or "major" funds-not the Agency as a whole. Funds are accounting devices the Agency uses to keep track of specific sources of funding and spending on particular programs. Some funds are required by state law or by bond covenants. The Agency establishes other funds to control and manage money for particular purposes, such as accounting for major construction projects or to show that it is properly using certain revenues, such as federal grants.

MANAGEMENT'S DISCUSSION AND ANALYSIS

USING THIS ANNUAL REPORT (Continued)

Reporting the Agency as a Whole (Continued)

Fund Financial Statements (continued)

The Agency has one kind of fund:

- Governmental funds account for all of the Agency's basic services. These focus on how cash and other financial assets that can readily be converted to cash flow in and out and the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Agency's programs. Because this information does not encompass the additional long-term focus of the Government-wide statements, additional information at the bottom of the governmental fund statements explains the relationship or differences between the two statements. The Agency's governmental funds include: 1) the General Fund, 2) the Special Revenue Fund, and 3) the Debt Service Fund.

The governmental funds required financial statements include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

MANAGEMENT'S DISCUSSION AND ANALYSIS

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. Keystone Area Education Agency's net assets at the end of fiscal year 2008 totaled approximately \$3 million. The analysis that follows provides a summary of the Agency's net assets at June 30, 2008 for the governmental activities.

Condensed Statement

	Governmental Activities		Business-type Activities	
	2007	2008	2007	2008
Current and other assets	\$ 7,017,912	\$ 6,771,263	\$ -	
Capital assets	4,600,556	4,422,518	-	
Total assets	11,618,468	11,193,781	-	-
Long-term obligations	4,179,527	3,758,775	-	-
Other liabilities	5,017,287	4,461,545	-	
Total liabilities	9,196,814	8,220,320	-	-
Net assets:				
Invested in capital assets, net of related debt	870,153	952,115	-	
Restricted	423,030	424,846	-	
Unrestricted	1,128,471	1,596,500	-	
Total net assets	\$ 2,421,654	\$ 2,973,461	\$ -	\$ -

of Net Assets

Total Agency		Percentage
2007	2008	Change (%)
		2007-2008
\$ 7,017,912	\$ 6,771,263	(3.5)
4,600,556	4,422,518	(3.9)
11,618,468	11,193,781	(3.7)
4,179,527	3,758,775	(10.1)
5,017,287	4,461,545	(11.1)
9,196,814	8,220,320	(10.6)
870,153	952,115	9.4
423,030	424,846	0.4
1,128,471	1,596,500	41.5
\$ 2,421,654	\$ 2,973,461	22.8

MANAGEMENT'S DISCUSSION AND ANALYSIS

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

The following analysis shows the changes in net assets for the year ended June 30, 2008:

	Changes in			
	Governmental Activities		Business-type Activities	
	2007	2008	2007	2008
Revenues:				
Program revenues:				
Charges for service	\$ 753,883	\$ 1,020,854	\$ -	\$ -
Operating grants and contributions	9,170,048	9,500,767	-	-
General revenues:				
Property taxes	5,568,398	5,731,214	-	-
State foundation aid	5,331,747	5,783,113	-	-
Unrestricted investment earnings	317,196	223,365	-	-
Total revenues	21,141,272	22,259,313	-	-
Program expenses:				
Instruction	377,841	640,498	-	-
Student support services	9,243,619	9,700,418	-	-
Instructional staff support services	5,728,419	5,914,181	-	-
General administration	2,848,311	2,929,419	-	-
Business administration	1,293,594	1,377,682	-	-
Plant operations and maintenance	885,710	908,202	-	-
Central and other support services	576	625	-	-
Community service operations	88,584	82,531	-	-
Interest on long-term debt	165,450	153,950	-	-
Total expenses	20,632,104	21,707,506	-	-
Increase (decrease) in net assets	509,168	551,807	-	-
Net assets beginning of year	1,912,486	2,421,654	-	-
Net assets end of year	\$ 2,421,654	\$ 2,973,461	\$ -	\$ -

Net Assets

Total Agency		Percentage Change (%)
2007	2008	2007-2008
\$ 753,883	\$ 1,020,854	35.4
9,170,048	9,500,767	3.6
5,568,398	5,731,214	2.9
5,331,747	5,783,113	8.5
317,196	223,365	(29.6)
21,141,272	22,259,313	5.3
377,841	640,498	69.5
9,243,619	9,700,418	4.9
5,728,419	5,914,181	3.2
2,848,311	2,929,419	2.8
1,293,594	1,377,682	6.5
885,710	908,202	2.5
576	625	8.5
88,584	82,531	(6.8)
165,450	153,950	(7.0)
20,632,104	21,707,506	5.2
509,168	551,807	8.4
1,912,486	2,421,654	26.6
\$ 2,421,654	\$ 2,973,461	22.8

MANAGEMENT'S DISCUSSION AND ANALYSIS

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Operating grants and contributions from local, state, and federal sources account for 43% of the total revenue. The Agency's expenses primarily relate to instruction and support services, which account for 75% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$22,259,313 and expenses were \$21,707,506.

FINANCIAL ANALYSIS OF THE AGENCY'S FUNDS

As previously noted, Keystone Area Education Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The Agency's governmental funds reported a combined fund balance that increased from \$2,000,625 to \$2,309,718.

Governmental Fund Highlights

The Agency's general fund financial position improved at the end of the 2007-2008 fiscal year because of partial restoration of state aid cuts, reductions in costs in central administration, unfilled vacancies, and increases in miscellaneous local revenues received for providing services to educational partners such as empowerment zones and out-of-state school districts. Increasing service needs and demands that are being imposed by federal legislation such as the *No Child Left Behind Act*, the *Individuals with Disabilities Education Act*, and the *Iowa Core Curriculum* will continue to provide financial challenges.

Budgetary Highlights

The Agency's Board of Directors annually adopts a budget on a basis consistent with U.S. generally accepted accounting principles. Although the budget document presents functional disbursements by fund, the legal level of control is at the total expenditure level, not at the fund or fund type level. After required public notice and State Board review, the State Board either approves the budget or returns it with comments. Any unapproved budget must be resubmitted to the State Board for final approval. The budget may be amended during the year utilizing procedures prescribed by the State Board. Over the course of the year, the Agency amended its annual operating budget one time to reflect additional revenue and expenditures associated with the additional services needed and provided to the local school districts. A schedule showing the original and final budget amounts compared to the Agency's actual financial activity is included in the required supplementary information section of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

On June 30, 2008, the Agency had invested approximately \$4.4 million, net of accumulated depreciation, in a broad range of capital assets, including land, building, computers, Media lending library and audio-visual equipment. Keystone Area Education Agency had depreciation expense of \$462,154 in FY08 and total accumulated depreciation of approximately \$5.9 million on June 30, 2008. More detailed information about capital assets is available in Note 4 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

At the time these financial statements were prepared and audited, the Agency was aware of existing circumstances that could significantly affect its financial health in the future:

- The state aid reduction has been reduced by \$196,297 to \$721,387 for the 2008-2009 fiscal year. This additional funding will assist the Agency as it attempts to meet its service requirements while maintaining an acceptable solvency ratio. There is a possibility that the state aid reduction will be further reduced to \$542,933 for the 2009-2010 fiscal year. This possibility must be tempered with the ominous predictions of state revenue shortfalls that will impact the Iowa Legislature's ability to restore the final reduction in state aid for the 2009-2010 fiscal year. Providing adequate compensation for the Agency's employees while maintaining an acceptable financial solvency ratio will continue to be a challenge. Very small increases or, in some cases, no increase in health and dental insurance rates have been helpful in meeting the aforementioned challenge.
- Collective bargaining settlements that continue to exceed increases in controlled funding as well as other funding is an on-going concern that will be addressed either through erosion of financial condition or erosion of services to schools and children. All of the aforementioned variables must be balanced with the need to compensate the Agency's employees in a competitive manner.
- Declining enrollment is an on-going concern, since controlled funding is driven by per pupil amounts, plus allowable growth, multiplied by the number of students. Although student population is declining, student needs are increasing.
- As an Agency, we must explore options to provide more effective, efficient, and economical service within an environment of declining enrollment, reduced state aid, a very competitive labor market for the professional employees that we need, and the requirement to maintain financial solvency.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the Agency's citizens, taxpayers, customers, investors and creditors with a general overview of the Agency's finances and to demonstrate the Agency's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office of Keystone Area Education Agency, 1400 2nd St N.W., Elkader, Iowa, 52043-9564.

KEYSTONE AREA EDUCATION AGENCY 1

BASIC FINANCIAL STATEMENT

STATEMENT OF NET ASSETS
June 30, 2008

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash	\$ 2,875,775	\$ -	\$ 2,875,775
Receivables:			
Accounts	174,956	-	174,956
Due from other governments	1,488,273	-	1,488,273
Inventories	27,062	-	27,062
Prepaid expenses	152,834	-	152,834
Restricted ISCAP assets:			
Investments	2,051,585	-	2,051,585
Accrued interest receivable	778	-	778
Capital assets (net of accumulated depreciation)	4,422,518	-	4,422,518
Total assets	11,193,781	-	11,193,781
Liabilities			
Accounts payable	451,308	-	451,308
Salaries and benefits payable	1,859,923	-	1,859,923
Interest payable	24,843	-	24,843
ISCAP warrants payable	2,035,000	-	2,035,000
Deferred revenue:			
Federal	54,151	-	54,151
Miscellaneous	36,320	-	36,320
Long-term liabilities			
Portion due or payable within one year:			
Capital leases	290,000	-	290,000
Early retirement obligation	29,692	-	29,692
Compensated absences	62,176	-	62,176
Portion due or payable after one year:			
Capital leases	3,180,403	-	3,180,403
Early retirement obligation	51,712	-	51,712
Compensated absences	144,792	-	144,792
Total liabilities	8,220,320	-	8,220,320

(Continued on next page)

KEYSTONE AREA EDUCATION AGENCY 1

**Exhibit A
(Continued)**

**STATEMENT OF NET ASSETS
June 30, 2008**

	Governmental Activities	Business-Type Activities	Total
Total Liabilities	\$ 8,220,320	\$ -	\$ 8,220,320
Net Assets			
Invested in capital assets, net of related debt	952,115	-	952,115
Restricted for:			
Debt service	424,846	-	424,846
Unrestricted	1,596,500	-	1,596,500
Total net assets	2,973,461	-	2,973,461
Total liabilities and net assets	\$ 11,193,781	\$ -	\$ 11,193,781

See Notes to Financial Statements.

KEYSTONE AREA EDUCATION AGENCY 1**STATEMENT OF ACTIVITIES****Year Ended June 30, 2008**

		Program Revenues	
		Charges for	Operating
	Expenses	Services	Grants and Contributions
Functions/Programs:			
Governmental Activities:			
Instruction	\$ 640,498	\$ -	\$ 638,042
Student support services	9,700,418	267,376	8,020,694
Instructional staff support services	5,914,181	302,942	748,817
General administration	2,929,419	-	-
Business administration	1,377,682	450,536	-
Plant operations and maintenance	908,202	-	-
Central and other support services	625	-	-
Community service operations	82,531	-	93,214
Interest on long-term debt	153,950	-	-
Total	\$ 21,707,506	\$ 1,020,854	\$ 9,500,767

General revenues:

Property taxes
State foundation aid
Unrestricted investment earnings

Change in net assets

Net assets beginning of year

Net assets end of year

See Notes to Financial Statements.

Exhibit B

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
\$ (2,456)	\$ -	\$ (2,456)
(1,412,348)	-	(1,412,348)
(4,862,422)	-	(4,862,422)
(2,929,419)	-	(2,929,419)
(927,146)	-	(927,146)
(908,202)	-	(908,202)
(625)	-	(625)
10,683	-	10,683
(153,950)	-	(153,950)
(11,185,885)	-	(11,185,885)
5,731,214	-	5,731,214
5,783,113	-	5,783,113
223,365	-	223,365
551,807	-	551,807
2,421,654	-	2,421,654
\$ 2,973,461	\$ -	\$ 2,973,461

KEYSTONE AREA EDUCATION AGENCY 1

Exhibit C

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2008

	Nonmajor Governmental		
	General	Funds	Total
Assets			
Cash	\$ 2,382,375	\$ 493,400	\$ 2,875,775
Receivables:			
Accounts	174,956	-	174,956
Due from other governments	1,488,273	-	1,488,273
Inventories	27,062	-	27,062
Prepaid expenditures	150,911	1,923	152,834
Restricted ISCAP assets:			
Investments	2,051,585	-	2,051,585
Accrued interest receivable	778	-	778
Total assets	\$ 6,275,940	\$ 495,323	\$ 6,771,263
Liabilities and Fund Balances			
Accounts payable	\$ 428,356	\$ 22,952	\$ 451,308
Salaries and benefits payable	1,836,643	23,280	1,859,923
Interest payable	598	24,245	24,843
ISCAP warrants payable	2,035,000	-	2,035,000
Deferred revenue:			
Federal	54,151	-	54,151
Miscellaneous	36,320	-	36,320
Total liabilities	4,391,068	70,477	4,461,545
Fund balances:			
Reserved for:			
Inventories	27,062	-	27,062
Prepaid expenditures	150,911	-	150,911
Media materials	787	-	787
Educator quality professional development	62,462	-	62,462
Teacher mentoring	3,741	-	3,741
Unreserved:			
Undesignated	1,639,909	424,846	2,064,755
Total fund balances	1,884,872	424,846	2,309,718
Total liabilities and fund balances	\$ 6,275,940	\$ 495,323	\$ 6,771,263

See Notes to Financial Statements.

**RECONCILIATION OF THE BALANCE SHEET--
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
June 30, 2008**

Total governmental fund balances (page 14) \$ 2,309,718

*Amounts reported for governmental activities in the
Statement of Net Assets are different because:*

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of assets is \$10,358,028 and the accumulated depreciation is \$5,935,510.

4,422,518

Long-term liabilities, including capital leases and compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.

(3,758,775)

Net assets of governmental activities (page 12)

\$ 2,973,461

See Notes to Financial Statements.

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES -- GOVERNMENTAL FUNDS
Year Ended June 30, 2008**

	Nonmajor Governmental		
	General	Funds	Total
Revenues:			
Local sources	\$ 7,027,608	\$ -	\$ 7,027,608
State sources	6,627,882	236,932	6,864,814
Federal sources	8,366,891	-	8,366,891
Total revenues	22,022,381	236,932	22,259,313
Expenditures:			
Current:			
Instruction	435,142	202,900	638,042
Student support services	9,783,157	-	9,783,157
Instructional staff support services	5,933,356	1,629	5,934,985
General administration	2,969,093	16,621	2,985,714
Business administration	1,383,903	-	1,383,903
Plant operations and maintenance	716,880	9,576	726,456
Central and other support services	625	-	625
Community service operations	83,388	-	83,388
Debt service	-	413,950	413,950
Total expenditures	21,305,544	644,676	21,950,220
Excess (deficiency) of revenues over (under) expenditures	716,837	(407,744)	309,093
Other financing sources (uses):			
Transfers in	6,206	415,766	421,972
Transfers out	(415,766)	(6,206)	(421,972)
Total financing sources (uses)	(409,560)	409,560	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	307,277	1,816	309,093
Fund balances, beginning of year	1,577,595	423,030	2,000,625
Fund balances, end of year	\$ 1,884,872	\$ 424,846	\$ 2,309,718

See Notes to Financial Statements.

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES --
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2008**

Net change in fund balances - total governmental funds (page 16) **\$ 309,093**

*Amounts reported for governmental activities in the
statement of activities are different because:*

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the estimated useful lives of the assets. Depreciation expense exceeded capital outlay in the current year as follows:

Expenditures for capital assets	\$ 315,737	
Depreciation expense	<u>(462,154)</u>	(146,417)

In the Statement of Activities, the loss on the disposition of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources	(31,622)
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Repayment of long-term debt principal is an expenditure in the governmental funds, but reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.	260,000
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Compensated absence and early retirement expense reported in the statement of activities does not require the use of current financial resources and, therefore, is not reported as an expenditure in the governmental funds.	<u>160,753</u>
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Change in net assets of governmental activities (page 13)	<u>\$ 551,807</u>
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See Notes to Financial Statements.

KEYSTONE AREA EDUCATION AGENCY 1

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Keystone Area Education Agency 1 is an intermediate school corporation established to identify and serve children who require special education. The Agency also provides media services and education support services. These programs and support services are provided to 25 school districts and private schools in an eight-county area. The Agency is governed by a Board of Directors whose members are elected on a non-partisan basis.

The Agency's financial statements are prepared in conformity with U. S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity:

For financial reporting purposes, Keystone Area Education Agency 1 has included all funds, organizations, agencies, boards, commissions and authorities. The Agency has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Agency are such that exclusion would cause the Agency's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Agency to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Agency. The Keystone Area Education Agency 1 has no component units which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation:

Government-wide Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all of the activities of the Agency. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the Agency's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (continued):

Government-wide Financial Statements (continued) – The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Unrestricted interest income and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The Agency reports the following major governmental fund:

The General Fund is the general operating fund of the Agency. All general revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

C. Measurement Focus and Basis of Accounting:

The Government-wide financial statements and the proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Agency considers revenues to be available if they are collected within 60 days after year-end.

Intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the Agency.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities and Fund Equity:

Cash – Cash includes amounts in demand deposits, money market funds and certificates of deposit.

Inventories – Inventories are stated at cost using the first-in, first-out method and consist of expendable supplies and materials. The cost of these items is recorded as an expenditure at the time of consumption.

Capital Assets – Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the Agency as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

Property, furniture and equipment are depreciated using the straight-line method of depreciation over the following useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	25
Improvements other than buildings	20
Furniture and equipment	5-20
Library books	5

Salaries and Benefits Payable – Payroll and related expenses for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue – Deferred revenue represents an excess of cash advances by the funding source over accrued expenditures at year-end.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities and Fund Equity (continued):

Compensated Absences – Agency employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability has been recorded in the Statement of Net Assets representing the Agency's commitment to fund non-current compensated absences. This liability has been computed based on rates of pay in effect at June 30, 2008. The compensated absences liability attributable to the governmental activities will be paid primarily by the General and Special Revenue Funds.

Long-term Liabilities – In the Government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets – In the Government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Note 2. Cash and Pooled Investment

The Agency's deposits in banks at June 30, 2008 were entirely covered by Federal depository insurance or by the state sinking fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Agency is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Directors; prime eligible bankers' acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk. The Agency's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Agency.

NOTES TO FINANCIAL STATEMENTS

Note 3. Iowa School Cash Anticipation Program (ISCAP)

The Agency participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards, and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each participating entity is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity and are provided monthly statements regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co., NA is trustee of the program. These accounts are reflected as restricted assets on the Statement of Net Assets and Balance Sheet.

A summary of the Agency's participation in ISCAP as of June 30, 2008 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2007-2008A	6/27/2007	6/27/2008	\$ -	\$ -	\$ -	\$ -
2008-2009A	6/26/2008	6/25/2009	2,051,585	778	2,035,000	598
			<u>\$ 2,051,585</u>	<u>\$ 778</u>	<u>\$ 2,035,000</u>	<u>\$ 598</u>

The Agency pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the Agency must repay the outstanding withdrawal from its General Fund receipts. In addition, the Agency must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2008 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2007-2008A	\$ -	\$ 2,300,000	\$ 2,300,000	\$ -
2008-2009A	-	-	-	-
	<u>\$ -</u>	<u>\$ 2,300,000</u>	<u>\$ 2,300,000</u>	<u>\$ -</u>

The warrants bear an interest rate and the available proceeds of the warrants are invested at an interest rate as shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2007-2008A	4.500%	5.455%
2008-2009A	3.500%	3.469%

NOTES TO FINANCIAL STATEMENTS

Note 4. Capital Assets

Capital assets activity for the year ended June 30, 2008 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 343,373	\$ -	\$ -	\$ 343,373
Total capital assets not being depreciated	343,373	-	-	343,373
Capital assets being depreciated:				
Buildings	5,624,750	-	-	5,624,750
Improvements other than buildings	93,000	-	-	93,000
Furniture and equipment	916,921	54,054	31,200	939,775
Library books	3,350,760	261,683	255,313	3,357,130
Total capital assets being depreciated	9,985,431	315,737	286,513	10,014,655
Less accumulated depreciation for:				
Buildings	2,498,574	189,855	-	2,688,429
Improvements other than buildings	50,220	4,185	-	54,405
Furniture and equipment	702,607	39,519	25,110	717,016
Library books and films	2,476,846	228,595	229,781	2,475,660
	5,728,247	462,154	254,891	5,935,510
Total capital asset being depreciated, net	4,257,184	(146,417)	31,622	4,079,145
Governmental activities capital assets, net	\$ 4,600,557	\$ (146,417)	\$ 31,622	\$ 4,422,518

Depreciation expense was charged to functions of the Agency as follows:

Governmental activities:	
Student support services	\$ 4,438
Instructional staff support services	238,191
General administration	6,533
Business administration	11,808
Plant operations and maintenance	201,184
Total governmental activities depreciation expense	\$ 462,154

NOTES TO FINANCIAL STATEMENTS

Note 5. Changes in Long-term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2008 is as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Capital leases	\$ 3,730,403	\$ -	\$ 260,000	\$ 3,470,403	\$ 290,000
Early retirement obligation	242,783	-	161,379	81,404	29,692
Compensated absences	206,342	13,483	12,857	206,968	62,176
	<u>\$ 4,179,528</u>	<u>\$ 13,483</u>	<u>\$ 434,236</u>	<u>\$ 3,758,775</u>	<u>\$ 381,868</u>

Capital leases:

The Agency is obligated under a lease accounted for as a capital lease. Fixed assets under a capital lease included in buildings totaled \$4,687,173 at June 30, 2008. The lease matures May 1, 2017 and requires interest at an interest rate of 4.25%. The following is a schedule of future minimum lease payments required under the capital lease as of June 30, 2008:

Year Ending June 30,	Principal	Interest	Total
2009	\$ 290,000	\$ 155,411	\$ 445,411
2010	315,000	131,873	446,873
2011	345,000	118,167	463,167
2012	360,000	95,642	455,642
2013	310,000	88,523	398,523
2014 and later years	1,850,403	217,668	2,068,071
Total	<u>\$ 3,470,403</u>	<u>\$ 807,284</u>	<u>\$ 4,277,687</u>

Payments under the agreement for the year ended June 30, 2008, including interest of \$115,766, totaled \$415,766.

Early retirement obligation:

The Agency offered a voluntary early retirement plan to its employees that was discontinued effective June 30, 2006. Eligible employees must have completed at least fifteen years of full-time service to the Agency and must have reached the age of fifty-five on or before June 30 in the calendar year in which early retirement commences. The application for early retirement is subject to approval by the Board of Directors. Early retirement benefits are equal to 20% of the employee's regular contractual salary in effect during the employee's last year of employment, with additional benefits available related to unused sick leave days and health insurance. Early retirement benefits will be paid in four equal installments in January and June in the years following the start of retirement. Health insurance benefits will be paid for up to five consecutive years after retirement or until the employee's 65th birthday, whichever comes first. At June 30, 2008, the Agency has obligations to fifteen participants with a total liability of \$81,404. Actual early retirement expenditures for the year ended June 30, 2008 totaled \$161,379.

NOTES TO FINANCIAL STATEMENTS

Note 6. Operating Leases

The Agency has leases for copiers and other related equipment that have been classified as operating leases and accordingly, all rents are charged to expenditures as incurred. The leases expire on dates ranging from November 2010 through June 2012.

The following is a schedule by year of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2008.

<u>Year Ending June 30,</u>	<u>Amount</u>
2009	\$ 55,645
2010	55,645
2011	41,367
2012	33,044
2013	7,200
Thereafter	1,200
	<u>\$ 194,101</u>

Total rental expenditures for the year ended June 30, 2008 for all operating leases, except those with terms of a month or less that were not renewed, was \$55,645.

Note 7. Pension and Retirement Benefits

The Agency contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P. O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.90% of their annual covered salary and the Agency is required to contribute 6.05% of annual covered payroll. Contribution requirements are established by State statute. The Agency's contribution to IPERS for the years ended June 30, 2008, 2007 and 2006 was \$778,900, \$665,571 and \$666,971, respectively, equal to the required contributions for each year.

Note 8. Risk Management

The Agency is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Agency assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

KEYSTONE AREA EDUCATION AGENCY 1

REQUIRED SUPPLEMENTARY INFORMATION

KEYSTONE AREA EDUCATION AGENCY 1**STATEMENT OF REVENUES, EXPENDITURES/EXPENSES
AND CHANGES IN BALANCES -- BUDGET AND ACTUAL
ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUND****Required Supplementary Information
Year Ended June 30, 2008**

	Governmental Fund Types Actual	Proprietary Fund Types Actual	Total Actual
Revenues:			
Local sources	\$ 7,027,608	\$ -	\$ 7,027,608
State sources	6,864,814	-	6,864,814
Federal sources:	8,366,891	-	8,366,891
Total revenues	22,259,313	-	22,259,313
Expenditures/Expenses:			
Current:			
Instruction	638,042	-	638,042
Student support services	9,783,157	-	9,783,157
Instructional staff support services	5,934,985	-	5,934,985
General administration	2,985,714	-	2,985,714
Business administration	1,383,903	-	1,383,903
Plant operations and maintenance	726,456	-	726,456
Central and other support services	625	-	625
Community service operations	83,388	-	83,388
Debt service	413,950	-	413,950
Total expenditures/expenses	21,950,220	-	21,950,220
Excess (deficiency) of revenues over (under) expenditures/expenses	309,093	-	309,093
Other financing sources (uses)	-	-	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures/ expenses and other financing (uses)	309,093	-	309,093
Balance, beginning of year	2,000,625	-	2,000,625
Balance, end of year	\$ 2,309,718	\$ -	\$ 2,309,718

See accompanying Independent Auditor's Report.

Budget		Final to Actual
Original	Final	Variance - Favorable (Unfavorable)
\$ 6,501,613	\$ 6,886,890	\$ 140,718
6,643,423	6,872,899	(8,085)
8,517,618	8,412,333	(45,442)
21,662,654	22,172,122	87,191
346,579	490,460	(147,582)
9,671,336	10,083,245	300,088
6,185,432	6,111,243	176,258
3,006,035	3,014,791	29,077
1,167,716	1,436,556	52,653
771,369	802,140	75,684
3,550	3,621	2,996
87,529	87,366	3,978
415,780	415,766	1,816
21,655,326	22,445,188	494,968
7,328	(273,066)	582,159
(7,328)		-
-	(273,066)	582,159
2,000,625	2,000,625	-
\$ 2,000,625	\$ 1,727,559	\$ 582,159

KEYSTONE AREA EDUCATION AGENCY 1
June 30, 2008

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

The Agency's Board of Directors annually prepares a budget on a basis consistent with U. S. generally accepted accounting principles. Although the budget document presents functional disbursements by fund, the legal level of control is at the total expenditure/expense level, not by fund. After required public notice and hearing in accordance with the Code of Iowa, the Board submits its budget to the State Board of Education. The State Board reviews the proposed budget and either grants approval or returns it without approval with comments. Any unapproved budget must be resubmitted to the State Board for final approval. The budget may be amended during the year utilizing procedures prescribed by the State Board.

OTHER SUPPLEMENTARY INFORMATION

KEYSTONE AREA EDUCATION AGENCY 1

Schedule 1

COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 Year Ended June 30, 2008

		Special Revenue		
		Juvenile	Debt	Total
		Home	Service	
Assets				
Cash		\$ 44,309	\$ 449,091	\$ 493,400
Prepaid expenditures		1,923	-	1,923
Total assets		\$ 46,232	\$ 449,091	\$ 495,323
Liabilities and Fund Balances				
Liabilities:				
Accounts payable		\$ 22,952	\$ -	\$ 22,952
Interest payable		-	24,245	24,245
Salaries and benefits payable		23,280	-	23,280
Total liabilities		46,232	24,245	70,477
Fund balances:				
Unreserved, undesignated fund balance		-	424,847	424,847
Total liabilities and fund balances		\$ 46,232	\$ 449,092	\$ 495,324

See Accompanying Independent Auditor's Report.

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2008**

	Special Revenue		
	Juvenile	Debt	
	Home	Service	Total
Revenues:			
State sources	\$ 236,932	\$ -	\$ 236,932
Total revenues	236,932	-	236,932
Expenditures:			
Current:			
Instruction	202,900	-	202,900
Instructional staff support services	1,629	-	1,629
General administration	16,621	-	16,621
Business administration	-	-	-
Plant operations and maintenance	9,576	-	9,576
Debt service	-	413,950	413,950
Total expenditures	230,726	413,950	644,676
Deficiency of revenues under expenditures	6,206	(413,950)	(407,744)
Other financing sources (uses):			
Transfers in (out)	(6,206)	415,766	409,560
	(6,206)	415,766	409,560
Excess of revenues and other financing sources over expenditures	-	1,816	1,816
Fund balances beginning of year	-	423,030	423,030
Fund balances end of year	\$ -	\$ 424,846	\$ 424,846

See accompanying Independent Auditor's Report.

KEYSTONE AREA EDUCATION AGENCY 1**SCHEDULE OF REVENUES BY SOURCE AND
EXPENDITURES BY FUNCTION****ALL GOVERNMENTAL FUND TYPES****For the Last Six Years**

	Modified Accrual Years Ended June		
	2008	2007	2006
Revenues:			
Local	\$ 7,027,608	\$ 6,699,556	\$ 6,552,694
State	6,864,814	5,721,745	5,175,879
Federal	8,366,891	8,719,971	8,870,515
Total	\$ 22,259,313	\$ 21,141,272	\$ 20,599,088
Expenditures			
Instruction	\$ 638,042	\$ 377,243	\$ 294,653
Student support services	9,783,157	9,337,230	9,438,835
Instructional staff support services	5,934,985	5,720,022	5,699,278
General administration	2,985,714	2,872,640	3,005,570
Business administration	1,383,903	1,294,592	1,192,424
Plant operations and maintenance	726,456	725,009	671,528
Central and other support services	625	576	2,421
Community service operations	83,388	87,292	85,828
Facilities acquisition and construction	-	-	127,727
Debt service	413,950	462,950	453,513
Total expenditures	\$ 21,950,220	\$ 20,877,554	\$ 20,971,777

See accompanying Independent Auditor's Report.

Schedule 3

Basis		
30,		
2005	2004	2003
\$ 6,402,127	\$ 6,135,625	\$ 5,926,165
4,923,883	4,891,443	5,588,592
8,502,948	7,665,784	6,644,135
\$ 19,828,958	\$ 18,692,852	\$ 18,158,892
\$ 121,543	\$ 117,248	\$ 94,162
9,322,347	8,422,985	7,666,455
5,402,081	5,624,220	5,242,624
2,979,545	2,691,044	2,618,878
758,353	571,982	476,412
630,566	768,618	565,719
192,599	296,276	320,905
-	-	-
-	-	-
361,701	345,683	363,047
\$ 19,768,735	\$ 18,838,056	\$ 17,348,202

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2008

Project Title	CFDA Number	Pass-through Grantor's Number	Expenditures
Indirect:			
U. S. Department of Education:			
Passed-through Iowa Department of Education:			
Part B, Education of Handicapped act (EHA)			
Special Education - Grants to States:			
Basic Entitlement	84.027	7KB-02	
Basic Entitlement	84.027	070801	5,424,543
Supplemental Support	84.027	8KB2-01	1,798,673
Parent-Educator Connection	84.027	77401	93,214
Diagnostic Evaluation	84.027	7K71	8,150
Para-Educator Training	84.027	7K76-01	16,094
Instructional Decision Making	84.027	7K79-01	64,163
			<u>7,404,837</u>
Special Education:			
Grants for Infants and Families with Disabilities:			
Part C	84.181	C07-01	<u>198,324</u>
Special Education - Preschool Grants:			
Section 619 Project	84.173	07619-01	<u>240,870</u>
Second Chance Reading	84.323	032608	<u>5,635</u>
Transition Content Coaches	84.323	080256	<u>999</u>
Vocational Ed - Basic Grants to States	84.048A		<u>216,123</u>
English as Second Language	84.215		<u>3,400</u>

(Continued on next page)

KEYSTONE AREA EDUCATION AGENCY 1

Schedule 4
(Continued)SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2008

Project Title	CFDA Number	Pass-through Grantor's Number	Expenditures
Indirect (Continued):			
U. S. Department of Education:			
Passed-through Iowa Department of Education:			
Title III - English Language Acquisition	84.365		\$ 40,772
Every Learner Inquires	84.367	023608	3,386
Reading First	84.357		14,575
Enhancing Education Through Technology	84.318		136,678
Passed-through an Iowa LEA:			
Title II, Part A	84.367		19,617
Passed-through an Iowa AEA:			
English as Second Language	84.215		1,105
Safe and Drug Free Schools	84.186		2,400
Autism	84.027		962
U. S. Department of Health and Human Services:			
Passed-through Iowa Department of			
Medicaid Reimbursement:			
Medicaid Direct Services	93.778		77,208
			\$ 8,366,891

Basis of Presentation: The Schedule of Expenditures of Federal Awards includes the federal grant activity of Keystone Area Education Agency 1 and is presented on the modified accrual basis. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying Independent Auditor's Report.

KEYSTONE AREA EDUCATION AGENCY 1

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



SCHNURR & COMPANY, LLP
Certified Public Accountants and Consultants

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Keystone Area Education Agency 1
Elkader, Iowa

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Keystone Area Education Agency 1 (the "Agency"), as of and for the year ended June 30, 2008, which collectively comprise the Agency's basic financial statements listed in the table of contents, and have issued our report thereon dated November 7, 2008. We conducted our audit in accordance with U. S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing our opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We identified no deficiencies in internal control over financial reporting that we consider to be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to initiate, authorize, record, process, or report financial data reliably in accordance with US general accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Agency's financial statements that is more than inconsequential will not be prevented or detected by the Agency's internal control. We noted no significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Agency's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Agency's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Agency. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The Agency's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the Agency's responses, we did not audit the Agency's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the Agency, and other parties to whom the Agency may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Keystone Area Education Agency 1 during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Schnarr & Company, LLP

Fort Dodge, Iowa
November 7, 2008

KEYSTONE AREA EDUCATION AGENCY 1

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133**



SCHNURR & COMPANY, LLP
Certified Public Accountants and Consultants

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133**

Board of Directors of
Keystone Area Education Agency 1
Elkader, Iowa

Compliance

We have audited the compliance of Keystone Area Education Agency 1 (the "Agency") with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The Agency's major federal programs are identified in Part 1 of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of the Agency's management. Our responsibility is to express an opinion on the Agency's compliance based on our audit.

We conducted our audit of compliance in accordance with U. S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Agency's compliance with those requirements.

In our opinion, the Agency complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of the Agency is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the Agency's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the Agency's internal control that might be significant deficiencies or material weaknesses as defined below.

A control deficiency in the Agency's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies that adversely affects the Agency's ability to administer a federal program such that there is more than a remote likelihood noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Agency's internal control. We identified no deficiencies in internal control over compliance.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Agency's internal control. We identified no significant deficiencies or material weaknesses in internal control over compliance.

The Agency's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we expressed our conclusions on the Agency's responses, we did not audit the Agency's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the Agency and other parties to whom the Agency may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Schnarr & Company, LLP

Fort Dodge, Iowa
November 7, 2008

KEYSTONE AREA EDUCATION AGENCY 1

Schedule of Findings and Questioned Costs Year Ended June 30, 2008

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) No significant deficiencies in internal control over financial reporting were disclosed.
- (c) The audit did not disclose any noncompliance that is material to the financial statements.
- (d) No significant deficiencies in internal control over major programs were disclosed.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose any audit findings that are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was:

CFDA Number 84.027 - Special Education - Grants to States
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Keystone Area Education Agency 1 qualified as a low-risk auditee.

Part II: Findings Related to the General Purpose Financial Statements:

Instances of Non-Compliance:

No matters were reported.

Significant Deficiencies:

No matters were noted.

Part III: Findings and Questioned Costs For Federal Awards:

Instances of Non-Compliance:

No matters were reported.

Significant Deficiencies:

No matters were noted.

Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2008

Part IV: Other Findings Related to Required Statutory Reporting:

- IV-A-08 Budget: Expenditures during the year ended June 30, 2008 did not exceed the amounts budgeted.
- IV-B-08 Questionable Expenditures: No expenditures that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- IV-C-08 Travel Expense: No expenditures of Agency money for travel expenses of spouses of Agency officials or employees were noted.
- IV-D-08 Business Transactions: No business transactions between the Agency and Agency officials or employees were noted.
- IV-E-08 Bond Coverage: Surety bond coverage of Agency officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- IV-F-08 Board Minutes: No transactions requiring Board approval were noted which had not been approved.
- IV-G-08 Deposits and Investments: The Agency complied with the provisions of Chapters 12B and 12C of the Code of Iowa.
- IV-H-08 Certified Annual Report: The Certified Annual Report was certified timely with the Department of Education.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Keystone Area Education Agency 1 during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Schwarr & Company, LLP

Fort Dodge, Iowa
November 7, 2008